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**CA-_____
AGENDA ID #911**

WATER/ABJ/PTL:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

**RESOLUTION NO. W-4343
AUGUST 8, 2002**

RESOLUTION

**(RES. W-4343) POINT ARENA WATER WORKS, INC. (PAWW).
ORDER AUTHORIZING AN INTERIM INCREASE IN RATES,
SUBJECT TO REFUND, PRODUCING ADDITIONAL ANNUAL
REVENUES OF \$70,137 OR 56.9% FOR TEST YEAR 2002.**

SUMMARY

By Draft Advice Letter filed on January 14, 2002, PAWW seeks an increase in rates for water service producing additional revenue of \$170,644 or 213% to recover increased operating costs and to earn a reasonable return on investment. So far, this Commission has granted an interim rate increase producing additional revenue of \$47,677 or 62.3% pursuant to Res. W-4308, dated October 25, 2001, based upon the need to provide a positive cash flow to the utility. This resolution grants a second interim increase in gross annual revenues of \$70,137 or 56.9% for Test Year 2002. This increase is subject to refund pending the final resolution of outstanding differences between the Division and PAWW, which is being appealed by PAWW through the appeal process set forth in ordering Paragraph 7 of Commission Decision 92-03-093. This increase will provide a 13.00% rate of return on rate base in the test year.

BACKGROUND

PAWW filed a draft advice letter with the Commission's Water Division (Division) on June 6, 2000, requesting an increase in rates producing additional revenue of \$70,000 or 90%. The utility completely revised its request on January 11, 2001, and again on January 14, 2002. PAWW's final draft advice letter requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities (PU) Code to increase rates for water service to produce additional revenues of \$170,644 or 213% in 2002 (based on rates in effect prior to the interim increase authorized in Res. W-4308). PAWW's request shows 2002

gross revenue of \$80,095 at present rates increasing to \$250,259 at proposed rates to produce a rate of return on rate base of 15.00%. PAWW serves approximately 179 metered rate customers in the City of Point Arena and vicinity and Whiskey Shoals Subdivision Units 1, 2, and 3, Mendocino County.

Division Standard Practice U-9-SM, "Standard Practice for Processing Informal General Rate Cases of Class B, C, and D Water Utilities and Service Guarantee Plan" requires that within 7 days of receipt of a rate increase request, the Division's Audit and Compliance Branch (ACB) will prepare a cash flow analysis on the requesting utility. If the analysis indicates that the utility is operating in the red on a cash flow basis, ACB will prepare a resolution to authorize an immediate rate increase adequate to meet the cash flow needs. It wasn't until PAWW filed its 2000 Annual Report to the Commission in August 2001, that ACB was able to conduct such a cash flow analysis. The analysis indicated that PAWW was operating at a loss and that interim rate relief was justified. This conclusion prompted the interim increase authorized by Res. W-4308 described above. The increase provided PAWW with sufficient monies to pay its current cash operating expenses with no rate of return on its rate base.

As part of the Division's rate increase investigation a financial audit of PAWW was conducted by ACB. The results of the audit were set forth in a Staff Audit Report, dated November 26, 2001, and concluded that PAWW operated at a loss of approximately \$56,700 in 2000. This verified that the interim rate increase authorization pursuant to Res. W-4308 was valid.

PAWW's last general rate increase was authorized pursuant to Res. W-3594, dated June 21, 1991. Current rates became effective on November 5, 2001 pursuant to Res. W-4308 that granted the interim increase of \$47,677 or 62.3% as mentioned above.

DISCUSSION

The Division made an independent analysis of PAWW's summary of earnings and issued its report in June, 2002. Appendix A shows PAWW's and the Division's estimates of the summary of earnings at present, proposed, and recommended rates for test year 2002. Appendix A also shows differences in estimates of revenues, expenses, and rate base.

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PAWW was informed of the Division's differing views of revenues, expenses and rate base and disagreed with the Division's estimates of Management Salaries, Professional Services, Regulatory Commission Expense, Rate Base and

Rate of Return. On June 17, 2002, representatives of PAWW met with the Division staff to discuss each of the estimates in dispute with the following results:

Management Salaries: - The dispute in this account involves the hourly rate of Mr. Hay as he performs operational and maintenance activities such as repairing pipe and other plant facilities, taking water samples, and performing other maintenance functions. The Division estimates \$22.00 per hour for that type of work in the area for a utility of PAWW's size to be reasonable. PAWW indicates that the hourly rate should be \$28 - \$30 per hour based on the utility being allowed to charge \$25 to reconnect a service that has previously been disconnected. This \$25.00 reconnection fee has nothing to do with hourly maintenance labor rates. The Division believes its estimate of \$22.00 per hour to be reasonable, therefore, a difference in estimates in this account still remains.

Professional Services: - PAWW estimated \$20,000 for this account. The Division accepted this estimate, however, it reclassified \$12,015 as regulatory commission expense because it reflected costs associated with the preparation of the initial rate increase request and first revision. The Division's estimate of \$7,450 (the amount remaining after reclassifying the \$12,015) is for the cost of accounting services provided for PAWW. The utility did not estimate any additional costs in this category. The utility indicates that the Division makes no allowance for the professional engineer who Mr. Hay engaged to assist his request to the State Water Resources Control Board to increase PAWW's rights to extract water from the Garcia River. For ratemaking purposes, costs associated with water rights are capital investment and, therefore, not considered as an expense item. When the utility has completed the task of obtaining additional water rights, it may file an advice letter request for a rate base offset increase reflecting the costs associated with the request to increase its water rights to the Garcia River. PAWW also indicates that the Division did not consider legal fees in its estimate. The \$12,015 transferred to the regulatory commission expense account was for fees PAWW paid its attorney to assist it in preparing its rate increase request. No other legal fees were requested. The dispute over this account still remains.

Regulatory Commission Expense: - PAWW's estimate consists of the 1.4% CPUC User Fee. No other costs were included in its request. The Division did not include the user fee in either its expense or revenue estimates. The Division's estimate of \$2,043 is based on the \$12,015 reclassified from Professional Services

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that represent costs incurred by PAWW in preparing the initial rate increase request and the 2001 revision. Division believes this to be a reasonable cost for a general rate case for a utility of PAWW's size. Although its been ten years since PAWW filed its last general rate case, small water utilities normally file every four to six years. In view of this, the Division recommends that that \$12,015 be

spread over a five-year rate cycle or \$2,043 per year. PAWW claims that this account should reflect a total of \$15,000 amortized over three years or \$5,000 per year. The dispute over this account still remains.

Rate Base : - The Division's estimate of rate base in the test year is based on the rate base of \$286,520 at the end of year 2000 that was found accurate in the ACB Audit. Projecting the \$286,520 to test year 2002 including recorded plant additions in 2001 and using depreciation found reasonable by both parties, yields the Division's rate base estimate of \$275,742. PAWW suggests an addition of \$3,000 of Material and Supply be added to the rate base. PAWW did not request any specific amount for Materials and Supply. Division does not agree, therefore, the dispute over this account still remains.

Rate of Return: - The Division recommends a rate of return of 13.00 %, which is the midpoint of the rate of return range of 12.50% to 13.50% recommended by ACB for Class D water utilities. PAWW requested a 15.00% rate of return in its filing. After reviewing the Division staff report, PAWW believes that a 14.00% rate of return is justified because of the good service it provides its customers. Rarely does the Division recommend a rate of return greater than the midpoint of the range recommended by ACB. While the Division staff did observe that PAWW does provide very good water service, the entire operation of the utility, specifically billing, does not merit a rate of return greater than 13.00%. The dispute over this amount still remains.

In its investigation, the Division discovered that upon implementing its newly authorized rates pursuant to Res. W-3594, dated June 19, 1991, PAWW began incorrectly assessing its 5/8 X 3/4-inch metered customers with the 3/4 -inch metered service charge rate, an initial overcharge of \$3.15 per month per customer (\$15.20 versus \$12.05). The utility assessed this incorrect rate up until the interim rates authorized by Res. W-4308 were implemented in January 2002. It appears to the Division that the incorrect billing was inadvertent on the part of PAWW. Although PAWW has been losing money since 1994 even with the incorrect billing, and the incorrect billing was inadvertent, the utility was still in violation of Section 532 of the State of California Public Utilities Code (Code). Therefore, the Division recommends that PAWW be required to refund three years (1999, 2000 and 2001) of the over-collection to each affected customer over a six month period. This is consistent with Section 736 of the Code that limits the

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claim for damages resulting from violations of any of the provisions of Section 532 of the Code to three years. The total over-collection from January 1, 1999 through December 31, 2001 was \$17,965.

Since 1978, PAWW has had a surcharge in place to recover the cost related to the Garcia River well and pipeline that were installed in 1978. The costs were financed using a Small Business Administration (SBA) loan. The purpose of the surcharge was to repay the SBA loan payment of \$790 per month. During the first twelve years the surcharge did not collect sufficient amounts to pay the loan so an under-collection occurred and PAWW had to make up the difference. Since 1993 the amounts collected exceeded the amount needed to pay the loan payments. As of December 31, 2001, PAWW had collected \$59,904, which exceeds the current need to pay down the loan balance of \$56,044. PAWW eliminated the surcharge on December 31, 2001. The Division recommends that the \$3,860 over-collection be refunded to customers via a credit on each monthly bill for a period of six months as shown below:

Refund of Garcia Well Surcharge

<u>Meter Size</u>	<u>Number</u>	<u>Refund</u>	<u>Revenue</u>	<u>6-month</u>
5/8 x 3/4 - inch	152	\$17.73	\$2,695	\$2.96
3/4 - inch	10	22.38	224	3.73
1 - inch	10	27.96	280	4.66
2 - inch	5	52.18	261	8.70
6 - inch	2	200.12	<u>400</u>	33.35
			\$ 3,860	

PAWW has a tariff schedule, Schedule No. 9-MIUL, for untreated industrial water. The schedule was created for untreated water users like Bed Rock, a rock and gravel company owned by the Hay Family. Over the years, Bed Rock has been the only customer to use the industrial tariff rate. The water rate for this tariff schedule is \$2.28 per thousand gallons (or \$1.71 per hundred cubic feet). By contrast, the residential rate in 2000 for treated water was \$2.66 per hundred cubic feet (Ccf) (General Metered Service Tariff Schedule No. 1).

Prior to 1994, Bed Rock was located next to the incoming water line from the Garcia River well and was able to receive untreated water. Bed Rock used untreated water for its cement mixing operations. Then in 1994, Bed Rock

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moved up the street, so the only way for it to receive untreated water was to install a new water line. Rather than incur this cost, PAWW started to deliver treated water to Bed Rock, but continued to charge the untreated industrial tariff.

The difference in revenue between the untreated and treated schedules is \$1,276. Division staff's investigation indicates that PAWW has been losing money every year since 1994 and at an amount exceeding \$1,276. Since rates haven't been

increased since 1991, the \$1,276 differential would have had no adverse impact on PAWW customers. All that has happened is that PAWW's loss per year has been \$1,276 greater than it would have been if Bed Rock had been paying the higher treated-water rate. Bed Rock is now paying the same rate as residential customers as a result of the interim increase authorized by Res. W-4308.

The City of Point Arena (City) has expressed a very keen interest in this rate case and has been in constant communication with the Division staff throughout the investigation. The City expressed concerns with many expense accounts estimated by PAWW in its request. All of the City's concerns were considered by the Division as it conducted its investigation and made its recommendations which are reflected in Appendix A.

The City was informed that it would be sent a copy of the draft of this resolution upon which it could comment to the Commission on any of its concerns. The City was also informed that it could attend the Commission meeting that will consider this resolution and express its concerns in person.

The City has been advised that when this resolution is signed by the Commission and it still has concerns, it may 1) Petition to Modify the Resolution or 2) as a City Council file a formal complaint per Section 1702 of the Public utilities Code. The Commission staff will provide the City with any assistance it needs in pursuing either of the two above-mentioned options.

PAWW requested rates that it estimated would produce a rate of return on rate base of 15.00%. The Summary of Earnings in Appendix A shows a rate of return of 13.00% at the Division's recommended rates. This rate of return is the midpoint of the rate of return range recommended by the Commission's Audit and Compliance Branch for Class D water utilities. Under guidelines established by Commission Decision (D.) 92-03-093, the Commission must calculate net revenue by both the return on rate base and operating ratio methods that determine revenue and select the method that produces the most revenue. The Division evaluated the net using both methods and determined that the return on rate base method produces the most revenue.

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PAWW provides metered service to 179 customers. Current Commission rate design policy for metered service allows Class D water companies (companies with less than 500 service connections) to collect 100% of its fixed costs in the service charge portion of its rates. PAWW's present rates fall significantly short of this allowance by recovering only about 50% of its fixed costs in the service charge portion of Schedule No. 1, General Metered Service. The Division's proposed rates in Appendix B raises the percentage of fixed cost recovery in the service charge to approximately 68%. The percent recovery can not go any

higher because of the rate design policy that restricts any one customer from experiencing an increase in rates that is more than twice the system average increase authorized. The Division recommends that in future general rate increase requests filed by PAWW, the percentage of fixed costs recovered by the service charge be raised until such time that 100% recovery is achieved.

A comparison of customer bills for PAWW is shown in Appendix C. At Division's recommended rates, a monthly bill for a residential customer using 630 cubic feet will be increased from \$47.30 to \$74.18 or 56.8%. The adopted quantities and tax calculations are shown in Appendix D.

As mentioned earlier, the increase authorized in this resolution is interim, subject to refund pending resolution of outstanding differences between the Division and PAWW which is being appealed by PAWW through the appeal process set forth in Ordering Paragraph 7 of Commission Decision 92-03-093. The revenue that is eventually authorized in the final resolution of this matter will be made effective as of the date of this resolution. If the final authorized revenue is less than the revenue authorized in this resolution, customers will receive a refund for the overcollection of revenue between the effective dates of the interim and final rates, via a surcredit in their bills. If the final revenue authorized is greater than the revenue authorized in this resolution, the utility may place the resulting undercollection into a memorandum account, effective the date of this resolution. PAWW may then request recovery of the memorandum account balance via customer surcharge over a suitable period of time.

NOTICE AND PUBLIC MEETING

A notice of the proposed increase in rates initially filed by PAWW was mailed to each customer on November 27, 2000. The notice of the revised request was mailed to each customer on January 30, 2002. The Division has received 25 letters including 11 form letters protesting the increase.

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The Division conducted two informal public meetings regarding the rate increase request, the first on December 19, 2000, and the second on February 26, 2002.

Approximately 16 and 60 individuals attended each meeting, respectively. The primary concerns of individuals at both meetings were the size of the rate increase, the Garcia River Surcharge over-collection, and the over-collection of the 5/8" meter customers. Service is satisfactory. There are no significant service problems requiring corrective action.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements.

The utility has been filing annual reports as required.

PAWW's 2000 Consumer Confidence Report filed with the Department of Health Services and the most recent water sample tested on 6/26/01 indicated that the water quality meets all State requirements and there is no violation.

The Division recommends that the Commission authorize a rate increase of \$70,137 or 56.9%, subject to refund. The new rate will increase estimated annual revenues from \$123,278 to \$193,415 at recommended rates as shown in Appendix A.

COMMENTS

On July 2, 2002, the Commission mailed the draft resolution of the Water Division in this matter to parties in accordance with Public Utilities Code Section 311(g)(1) and Rule 77.7 of the Rules of Practice and Procedure.

FINDINGS

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted, subject to refund.
2. The rates recommended by the Division (Appendix B) are reasonable and should be authorized, subject to refund.

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3. The quantities (Appendix D) used to develop the Division recommendations are reasonable and should be adopted.
4. PAWW should be required to refund 3 years of over-collection to its 5/8 x 3/4-inch metered customers it provided service to in 1999, 2000, and 2001 by providing a credit of \$19.13 per month for six months commencing with the first billing after the effective date of new rates authorized in this resolution.
5. PAWW should be required to provide Garcia River Surcharge credits to customers for six months commencing with the first billing, after the effective date of new rates. Refund should be as follows:

Refund of Garcia Well Surcharge

<u>Meter Size</u>	<u>Number</u>	<u>Refund</u>	<u>Revenue</u>	<u>6-month</u>
5/8 x 3/4 - inch	152	\$17.73	\$2,695	\$2.96
3/4 - inch	10	22.38	224	3.73
1 - inch	10	27.96	280	4.66
2 - inch	5	52.18	261	8.70
6 - inch	2	200.12	400	33.35

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Point Arena Water Works, Inc. to file an advice letter incorporating the summary of earnings and the revised schedule attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective rate schedule: Schedule No. 1, General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of its filing. These revenues are subject to refund.
2. Point Arena Water Works, Inc. shall provide overcharge credits to its 1999, 2000, and 2001 5/8-inch metered customers in installments of \$19.13 per month for six months commencing with the first billing, after the effective date of new rates authorized in this resolution.
3. Point Arena Water Works, Inc. shall provide Garcia River Surcharge credits to customers for six months commencing with the first billing, after the effective date of new rates authorized in this resolution. Refund should be as set forth in Finding 5 above.

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4. Point Arena Water Works, Inc. is authorized to open and maintain a memorandum account, effective the date of this resolution, to record the undercollection in revenues if the final rates eventually authorized in this general rate case are greater than the interim rates authorized in this resolution. Point Arena Water Works, Inc. is further authorized to file an advice letter requesting recovery of the memorandum account balance via customer surcharge over a suitable period of time.

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5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 8, 2002; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

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APPENDIX A
POINT ARENA WATER WORKS, INC.
SUMMARY OF EARNINGS
Test Year 2002

	Utility Estimated		Branch Estimated		Staff Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
<u>Operating Revenues</u>					
Metered Rate	\$80,095	\$250,259	\$123,278	\$250,259	\$193,415
<u>Operating Expenses:</u>					
Power	13,000	13,000	16,170	16,170	16,170
Other Vol. Related Costs	1,000	1,000	459	459	459
Employee Labor	6,000	6,000	5,640	5,640	5,640
Materials	15,000	15,000	5,840	5,840	5,840
Contract Work	20,000	20,000	17,790	17,790	17,790
Transportation	10,000	10,000	7,140	7,140	7,140
Other Plant Maintenance	5,500	5,500	5,500	5,500	5,500
Office Salaries	22,500	22,500	20,500	20,500	20,500
Management Salaries	24,000	24,000	19,500	19,500	19,500
Uncollectibles	2,000	2,000	1,115	1,115	1,115
Office Services & Rentals	9,600	9,600	6,000	6,000	6,000
Office Suppl. & Expenses	5,000	5,000	3,500	3,500	3,500
Professional Services	20,000	20,000	7,450	7,450	7,450
Insurance	17,500	17,500	11,350	11,350	11,350
Regulatory Expense	2,500	2,500	2,403	2,403	2,403
General Expenses	500	500	420	420	420
Subtotal	174,100	174,100	130,777	130,777	130,777
Depreciation Expense	8,200	8,200	8,263	8,263	8,263
Taxes Oth than Inc Taxes	12,000	12,000	8,126	8,126	8,126
Income Tax Expense	<u>800</u>	<u>13,459</u>	<u>800</u>	<u>29,316</u>	<u>10,412</u>
Total Expenses	195,100	207,759	147,966	176,482	157,578
Net Revenue	(115,005)	42,500	(24,688)	73,777	35,837
<u>Rate Base</u>					
Average Plant	1,325,173	1,325,173	1,326,763	1,326,763	1,326,763
Aver. Depr. Reserve	(100,100)	(100,100)	(112,478)	(112,478)	(112,478)
Net Plant	1,225,073	1,225,073	1,214,285	1,214,285	1,214,285
Less: Contributions	740,861	740,861	740,861	740,861	740,861
Surcharges	197,682	197,682	197,682	197,682	197,682
Rate Base	286,530	286,530	275,742	275,742	275,742
Rate of Return	Loss	15.00%	Loss	26.76%	13.00%

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APPENDIX B

POINT ARENA WATER WORKS, INC.

Schedule No. 1

GENERAL METERED SERVICE

Test Year 2002

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Point Arena and vicinity and Whiskey Shoals Subdivision Unit
Nos. 1, 2 & 3, Mendocino County.

RATES

Quantity Rate:

All water, per 100 cu. ft..... \$ 4.96 (I)

Per Meter
Per Month

Service Charge:

For	5/8x3/4-inch meter.....	\$42.93	(I)
For	3/4-inch meter.....	54.18	(I)
For	1-inch meter.....	67.69	(I)
For	1-1/2-inch meter.....	94.80	(I)
For	2-inch meter.....	126.33	(I)
For	3-inch meter.....	214.33	(I)
For	4-inch meter.....	291.52	(I)
For	6-inch meter.....	484.47	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered water service and to which is added to the charge for water used at the Quantity Rate.

SPECIAL CONDITIONS

1. In addition to the above rates and charges rendered to all bills under this schedule, a surcharge will be added as set forth in Schedule No. 1-X, General Metered Service Surcharge.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

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(END OF APPENDIX B)

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APPENDIX C

POINT ARENA WATER WORKS INC.

Schedule No. 1

GENERAL METERED SERVICE

Test Year 2002

COMPARISON OF RATES

A comparison of PAWW's present rates and the Branch's recommended rates is shown below:

<u>QUANTITY RATE</u>	<u>Present Rates</u>	<u>Recommended Rates</u>
All water, per 100 cu. ft:	\$4.32	\$4.96

SERVICE CHARGE

		<u>Per Meter Per Month</u>
For 5/8x3/4-inch meter.....	20.08	42.93
For 3/4-inch meter.....	25.34	54.18
For 1-inch meter.....	31.66	67.69
For 1-1/2-inch meter.....	44.34	94.80
For 2-inch meter.....	59.09	126.33
For 3-inch meter.....	100.25	214.33
For 4-inch meter.....	136.35	291.52
For 6-inch meter.....	226.60	484.47

A comparison of monthly bills at various consumption rates is as follows:

<u>Quantity Used 100 cu. ft</u>	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$20.08	\$42.93	\$22.85	113.8%
6.3	47.30	74.18	26.88	56.8
10.0	63.28	92.53	29.25	46.2

(END OF APPENDIX C)

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APPENDIX D

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POINT ARENA WATER WORKS INC.

ADOPTED QUANTITIES

Test Year 2002

EXPENSES

1. Purchased Power	\$16,170
Pacific Gas & Electric Company	
Rate Schedule	A-1
Summer (\$0.14870/kWh) x 33,877 kWh	\$5,038
Winter (\$0.10193/kWh) x 27,212 kWh	\$2,774
Customer Charge Polyphase four meters per year	\$576
Subtotal	\$8,388
Rate Schedule	A-6
Summer Peak (\$0.23258/kWh) x 3,511 kWh	\$817
Summer Part-Peak (\$0.10288/kWh) x 3,716 kWh	\$382
Summer Off-Peak (\$0.05618/kWh) x 4,635 kWh	\$260
Winter Part-Peak (\$0.11562/kWh) x 8,168 kWh	\$944
Winter Off-Peak (\$0.07169/kWh) x 4,644 kWh	\$333
Meter Charge per meter per year, Rate A-6	\$41
Customer Charge Polyphase per meter per year	\$72
Subtotal	\$2,849
Energy Procurement Surcharges	
Rate Schedule	A-1
Summer (\$0.07140/kWh) x 33,877 kWh	\$2,419
Winter (\$0.03838/kWh) x 27,212 kWh	\$1,044
Subtotal	\$3,463
Rate Schedule	A-6
Summer Peak (\$0.11064/kWh) x 3,511 kWh	\$388
Summer Part-Peak (\$0.05551/kWh) x 3,716 kWh	\$206
Summer Off-Peak (\$0.04551/kWh) x 4,635 kWh	\$211
Winter Part-Peak (\$0.05551/kWh) x 8,168 kWh	\$453
Winter Off-Peak (\$0.04551/kWh) x 4,644 kWh	\$212
Subtotal	\$1,470
2. Insurance Expense	\$11,350
3. County Taxes	\$2,775
4. Payroll Taxes	\$4,450

Service Connections

Metered Rate: All meter sizes	179
Meter Water Sales Used to Design Rates	16,395.4 Ccf

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APPENDIX D

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POINT ARENA WATER WORKS, INC.

ADOPTED INCOME TAX CALCULATIONS

Test Year 2002

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$193,415	\$193,415
2.	Expenses	\$130,777	\$130,777
3.	Unsecured Property Taxes	\$ 2,775	\$ 2,775
4.	Depreciation	\$ 8,263	\$ 8,263
5.	Payroll Taxes	\$ 4,450	\$ 4,450
6.	License Fees	\$ 901	\$ 901
7.	State Taxable Income	\$ 46,249	
8.	State Tax (@8.84%)	\$ 4,088	\$ 4,088
		=====	=====
9.	Federal Taxable Income		\$ 42,161
10.	Federal Income Tax (@15%)		\$ 6,324
11.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 10,412

(END OF APPENDIX D)